

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL OF LEJWELEPUTSWA DISTRICT MUNICIPALITY ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF LEJWE LE PUTSWA DEVELOPMENT AGENCY (PTY) LTD FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Lejwe Le Putswa Development Agency (Pty) Ltd which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 1973 (Act 61 of 1973) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Lejwe Le Putswa Development Agency (Pty) Ltd in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Trade and other payables

8. Sufficient appropriate audit evidence could not be obtained for the valuation of income tax of R166 755 payable to the South African Revenue Service, as disclosed in the statement of financial position, due to several discrepancies being reported during the 2005-06 financial year relating to grants, expenditure, provisions as well as trade and other payables that were incorrectly stated. Documents were not available to permit the performance of alternative audit procedures regarding the income tax liability. Consequently, I did not obtain all the information and explanations considered necessary to confirm the valuation of the income tax liability. Sufficient appropriate audit evidence to support the valuation of the accumulated deficit could therefore also not be obtained.

Operating expenses

9. Supporting documentation for operating expenses amounting to R159 019, as disclosed in the statement of financial performance, could not be obtained. There were no satisfactory audit procedures that I could perform to obtain sufficient appropriate audit evidence for the occurrence and accuracy of expenditure. Documents were not available to permit the performance of alternative audit procedures regarding the payments made. Consequently, I did not obtain all the information and explanations that I considered necessary to confirm the occurrence and accuracy of expenditure.

Qualified opinion

10. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Lejwe Le Putswa Development Agency (Pty) Ltd as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and, the Companies Act of South Africa.

Emphasis of matters

I draw attention to the following matters on which I do not express a qualified opinion:

Basis of accounting

11. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

Irregular and fruitless and wasteful expenditure

12. As disclosed in note 17.1 to the financial statements, irregular expenditure of R346 162 was incurred as a result of non-compliance with regulation 16 of the Municipal Supply Chain Management Regulations.
13. As disclosed in note 17.2 to the financial statements, fruitless and wasteful expenditure of R135 660 was incurred as the agency was not registered in terms of the Value-Added Tax Act, 1991 (Act No. 89 of 1991) and could not claim input value-added tax on expenditure paid.

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

14. Payments amounting to R649 091 were not made within 30 days of receipt of the invoice, as required in terms of section 99(2)(b) of the MFMA.
15. In terms of section 122(3) of the MFMA, the annual financial statements must be prepared in accordance with generally recognised accounting practice as determined by the Accounting Standards Board. The municipal entity has not provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, as prescribed by GRAP 1, *Presentation of Financial Statements*.

Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

16. In terms of section 93L of the MSA read with the code of conduct for councillors contained in schedule 1 to the act, directors – when elected or appointed – are required to declare their financial interests within 60 days to the chief executive officer. The required declarations were not made by all the directors.
17. In terms of section 93L of the MSA, read with the code of conduct for staff contained in schedule 2 to the act, a person appointed in terms of section 56 of the act is required to declare his/her financial interests within 60 days to the chairperson of the council. The previous chief executive officer and the acting chief executive officer did not make the required declarations.

Companies Act of South Africa, 1973 (Act 61 of 1973)

18. Minutes of board and management committee meetings for the financial year under review were not duly signed, as required by section 73(6) of the Companies Act of South Africa. Minutes and attendance registers could not be submitted for all board and management committee meetings and, consequently, I was unable to confirm if a quorum was present at the meetings, as required by section 64(1)(b) of the Companies Act of South Africa.

Governance framework

19. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

20. Section 95(c)(i) of the MFMA states that the accounting officer must ensure that the municipal entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control (the number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
8.	Trade and other payables					1
9.	Operating expenses			4,5,6		

Overall reflections on the governance framework based on internal control deficiencies

21. A skills shortage in financial management and the instability of leadership contributed to the qualification and material adjustments being made to the financial statements. Although the audit outcomes improved from a disclaimer to a financially qualified audit opinion, this improvement can be attributed to the adjustments that were made to the financial statements during the audit.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

22. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	X	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	X	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.	X	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	X	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The municipal entity had an audit committee in operation throughout the financial year. 	X	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 		X
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 		X
7.	Internal audit		
	<ul style="list-style-type: none"> The municipal entity had an internal audit function in operation throughout the financial year. 		X
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 		X
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 		X
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	X	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in 95(c)(i) of the MFMA.		X
12.	Powers and duties have been assigned, as set out in section 106 of the MFMA.	X	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		X
14.	SCOPA resolutions have been substantially implemented.		X

No.	Matter	Y	N
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipal entity against its mandate, predetermined objectives, outputs, indicators and targets section 87 of the MFMA.	X	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

Overall reflections on the governance framework based on other key governance requirements

23. The agency did not have a chief financial officer. This together with the lack of oversight of financial transactions by the internal audit unit and the audit committee, contributed to the shortcomings and errors listed in the report.
24. Although the accounting officer failed to develop and implement an action plan to appropriately address the findings of the previous year the necessary actions were taken to correct the majority of the findings.
25. An adequate filing system for documents supporting financial transactions was not maintained by the acting chief executive officer, in the absence of a chief financial officer, and resulted in a qualification.
26. Adequate control measures were also not developed and implemented to assess, monitor and mitigate non-compliance with applicable legislation that resulted in various acts being contravened as reported under other matters in this report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

27. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

28. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives, set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

The Auditor-General's responsibility

29. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
30. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

31. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

No reporting of performance information

32. The annual report of the Lejwe Le Putswa Development Agency (Pty) Ltd did not include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives, set in terms of the service delivery agreement between the entity and its parent municipality, as required by section 121(4)(d) of the MFMA. This can be attributed to the fact that systems that were implemented by the accounting officer were inappropriate to facilitate the preparation of accurate and complete performance information due to a lack of effective and efficient systems and internal controls regarding performance management.

Monitoring and review of performance information

33. The accounting officer of the Lejwe Le Putswa Development Agency (Pty) Ltd did not submit the mid-year performance assessment reports, as required in terms of section 88 of the MFMA.

34. Monthly budget statements were not prepared and submitted to the district municipality on a monthly basis, as required in terms of section 87 of the MFMA.

APPRECIATION

35. The assistance rendered by the staff of the Lejwe Le Putswa Development Agency (Pty) Ltd during the audit is sincerely appreciated.

Auditor-General

Bloemfontein

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

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